B EXERCISES

(LO 4) **E8-1B (Inventoriable Costs)** In your audit of Ali Company, you find that a physical inventory on December 31, 2007, showed merchandise with a cost of $200,000 was on hand at that date. You also discover the following items were all excluded from the $200,000.

1. Merchandise of $20,000 which is held by Ali on consignment. The consignor is the Max Suzuki Company.
2. Merchandise costing $25,000 which was shipped by Ali f.o.b. destination to a customer on December 31, 2007. The customer was expected to receive the merchandise on January 6, 2008.
3. Merchandise costing $23,000 which was shipped by Ali f.o.b. shipping point to a customer on December 29, 2007. The customer was scheduled to receive the merchandise on January 2, 2008.
4. Merchandise costing $60,000 shipped by a vendor f.o.b. destination on December 30, 2007, and received by Ali on January 4, 2008.
5. Merchandise costing $42,000 shipped by a vendor f.o.b. seller on December 31, 2007, and received by Ali on January 5, 2008.

Instructions

Based on the above information, calculate the amount that should appear on Ali's balance sheet at December 31, 2007, for inventory.

(LO 4) **E8-2B (Inventoriable Costs—Perpetual)** Farrell Machine Company maintains a general ledger account for each class of inventory, debiting such accounts for increases during the period and crediting them for decreases. The transactions below relate to the Raw Materials inventory account, which is debited for materials purchased and credited for materials requisitioned for use.

1. An invoice for $40,500, terms f.o.b. destination, was received and entered January 2, 2007. The receiving report shows that the materials were received December 28, 2006.
2. Materials costing $140,000, shipped f.o.b. destination, were not entered by December 31, 2006, "because they were in a railroad car on the company's siding on that date and had not been unloaded."
3. Materials costing $35,000 were returned to the creditor on December 29, 2006, and were shipped f.o.b. shipping point. The return was entered on that date, even though the materials are not expected to reach the creditor's place of business until January 6, 2007.
4. An invoice for $38,000, terms f.o.b. shipping point, was received and entered December 30, 2006. The receiving report shows that the materials were received January 4, 2007, and the bill of lading shows that they were shipped January 2, 2007.
5. Materials costing $95,000 were received December 30, 2006, but no entry was made for them because "they were ordered with a specified delivery of no earlier than January 10, 2007."

Instructions

Prepare correcting general journal entries required at December 31, 2006, assuming that the books have not been closed.

(LO 1, 4) **E8-3B (Determining Merchandise Amounts—Periodic)** Two or more items are omitted in each of the following tabulations of income statement data. Fill in the amounts that are missing.

	2005	2006	2007
Sales	$217,500	$?	$307,500
Sales returns	8,250	9,750	?
Net sales	?	260,250	?
Beginning inventory	15,000	24,000	?
Ending inventory	?	?	?
Purchases	?	195,000	223,500
Purchase returns and allowances	3,750	6,000	7,500
Transportation-in	6,000	6,750	9,000
Cost of goods sold	174,750	?	219,750
Gross profit on sales	34,500	68,250	72,750

(LO 4) **E8-4B (Purchases Recorded Net)** Presented below are transactions related to Jennings, Inc.

May	10	Purchased goods billed at $20,000 subject to cash discount terms of 2/10, n/60.
	11	Purchased goods billed at $18,200 subject to terms of 1/15, n/30.
	19	Paid invoice of May 10.
	24	Purchased goods billed at $16,500 subject to cash discount terms of 2/10, n/30.

Instructions

(a) Prepare general journal entries for the transactions above under the assumption that purchases are to be recorded at net amounts after cash discounts and that discounts lost are to be treated as financial expense.

(b) Assuming no purchase or payment transactions other than those given above, prepare the adjusting entry required on May 31 if financial statements are to be prepared as of that date.

(LO 4) **E8-5B (Purchases Recorded, Gross Method)** Castro Industries purchased $21,600 of merchandise on February 1, 2007, subject to a trade discount of 5% and with credit terms of 2/15, n/60. It returned $5,000 (gross price before trade or cash discount) on February 4. The invoice was paid on February 13.

Instructions

(a) Assuming that Castro uses the perpetual method for recording merchandise transactions, record the purchase, return, and payment using the gross method.

(b) Assuming that Castro uses the periodic method for recording merchandise transactions, record the purchase, return, and payment using the gross method.

(c) At what amount would the purchase on February 1 be recorded if the net method were used?

(LO 2) **E8-6B (Periodic versus Perpetual Entries)** Shin Company sells one product. Presented below is information for January for Shin Company.

Jan.	1	Inventory	300 units at $10 each
	4	Sale	240 units at $16 each
	11	Purchase	450 units at $12 each
	13	Sale	360 units at $17.50 each
	20	Purchase	480 units at $14 each
	27	Sale	300 units at $18 each

Shin uses the FIFO cost flow assumption. All purchases and sales are on account.

Instructions

(a) Assume Shin uses a periodic system. Prepare all necessary journal entries, including the end-of-month closing entry to record cost of goods sold. A physical count indicates that the ending inventory for January is 110 units.

(b) Assume Shin uses a perpetual system. Prepare all necessary journal entries.

(LO 3) **E8-7B (Inventory Errors—Periodic)** Burgess Company makes the following errors during 2007.

1. Ending inventory is understated, but purchases are recorded correctly.
2. Ending inventory is correct, but a purchase on account for 2007 was recorded in 2008.
3. Both ending inventory and purchases on account are understated for 2007. (Assume the purchase was recorded in 2008.)

Instructions

Indicate the effect of each of these errors on working capital, current ratio (assume that the current ratio is greater than 1), retained earnings, and net income for 2007 and 2008.

(LO 3, 4) **E8-8B (Inventory Errors)** At December 31, 2006, McGlaggen Corporation has the following items that may have been recorded incorrectly.

1. Goods purchased costing $10,000 were shipped f.o.b. destination by a supplier on December 26. McGlaggen received and recorded the invoice on December 31, but the goods were not included in McGlaggen's physical count of inventory because they were not received until January 2.
2. Freight-in of $4,000 was debited to advertising expense on December 28.
3. Goods purchased costing $11,000 were shipped f.o.b. shipping point by a supplier on December 28. McGlaggen received and recorded the invoice on December 29, but the goods were not included in McGlaggen's physical count of inventory because they were not received until January 4.
4. Goods held on consignment from Brown Company were included in McGlaggen's physical count of inventory at $13,000.

Instructions

By what amount will income (before taxes) be adjusted up or down as a result of the corrections?

(LO 2, 5) **E8-9B (FIFO and LIFO—Periodic and Perpetual)** Inventory information for Part 311 of Bonds Corp. discloses the following information for the month of June.

June	1	Balance	450 units @ $1	June	10	Sold	300 units @ $2.40
	11	Purchased	1,200 units @ $2		15	Sold	750 units @ $2.50
	20	Purchased	750 units @ $3		27	Sold	450 units @ $2.70

Instructions

(a) Assuming that the periodic inventory method is used, compute the cost of goods sold and ending inventory under (1) LIFO and (2) FIFO.

(b) Assuming that the perpetual inventory method is used and costs are computed at the time of each withdrawal, what is the value of the ending inventory at LIFO?

(c) Assuming that the perpetual inventory method is used and costs are computed at the time of each withdrawal, what is the gross profit if the inventory is valued at FIFO?

(LO 5) **E8-10B (FIFO, LIFO, Average Cost Inventory)** Sawyer Company was formed on December 1, 2006. The following information is available from Sawyer's inventory records for Product BAP.

	Units	Unit Cost
January 1, 2007 (beginning inventory)	1,200	$4.00
Purchases:		
January 5, 2007	2,400	4.50
January 25, 2007	2,600	5.00
February 16, 2007	1,600	5.50
March 26, 2007	1,200	6.00

A physical inventory on March 31, 2007, shows 3,200 units on hand.

Instructions

Prepare schedules to compute the ending inventory at March 31, 2007, under each of the following inventory methods.

(a) FIFO. **(b)** LIFO. **(c)** Weighted average.

(LO 2, 5) **E8-11B (FIFO and LIFO—Periodic and Perpetual)** The following is a record of Ensberg Company's transactions for Colt Products for the month of May 2007.

May 1	Balance 600 units @ $10.00	May 10	Sale 450 units @ $19
12	Purchase 900 units @ $12.00	20	Sale 810 units @ $19
28	Purchase 600 units @ $15.00		

Instructions

(a) Assuming that perpetual inventories are **not** maintained and that a physical count at the end of the month shows 840 units on hand, what is the cost of the ending inventory using (1) FIFO and (2) LIFO?

(b) Assuming that perpetual records are maintained and they tie into the general ledger, calculate the ending inventory using (1) FIFO and (2) LIFO.

(LO 2, 5) **E8-12B (FIFO and LIFO; Income Statement Presentation)** The board of directors of Soho Corporation is considering whether or not it should instruct the accounting department to shift from a first-in, first-out (FIFO) basis of pricing inventories to a last-in, first-out (LIFO) basis. The following information is available.

Sales	10,500 units @ $45
Inventory, January 1	3,000 units @ $15
Purchases	3,000 units @ $17
	5,000 units @ $20
	3,500 units @ $25
Inventory, December 31	4,000 units @ ?
Operating expenses	$100,000

Instructions

Prepare a condensed income statement for the year on both bases for comparative purposes.

(LO 8) **E8-13B (Dollar-Value LIFO)** Sandberg Company has used the dollar-value LIFO method for inventory cost determination for many years. The following data were extracted from Sandberg's records.

Date	Price Index	Ending Inventory at Base Prices	Ending Inventory at Dollar-Value LIFO
December 31, 2006	105	$23,000	$24,150
December 31, 2007	?	24,250	25,500

Instructions

Calculate the index used for 2007 that yielded the above results.

(LO 8) **E8-14B** **(Dollar-Value LIFO)** Presented below is information related to Meghani Company.

Date	Ending Inventory (End-of-Year Prices)	Price Index
December 31, 2006	$180,000	100
December 31, 2007	220,500	104
December 31, 2008	218,500	115
December 31, 2009	242,500	125
December 31, 2010	283,500	135
December 31, 2011	310,800	140

Instructions

Compute the ending inventory for Meghani Company for 2006 through 2011 using the dollar-value LIFO method.

(LO 8) **E8-15B** **(Dollar-Value LIFO)** The following information relates to James Company.

Date	Ending Inventory (End-of-Year Prices)	Price Index
December 31, 2006	$154,000	100
December 31, 2007	196,768	104
December 31, 2008	205,656	114
December 31, 2009	228,448	118
December 31, 2010	211,200	120

Instructions

Use the dollar-value LIFO method to compute the ending inventory for James Company for 2006 through 2010.

(LO 5) **E8-16B** **(Inventory Cost Flow Assumptions)** Presented below is information concerning the inventory transactions of Trejo Corporation.

Date	Purchase	Sale
01/01	20 units @ $1 each	
02/05		10 units
03/15	140 units @ $2 each	
04/10	80 units @ $3 each	
05/05		100 units
06/19	40 units @ $4 each	
07/04		90 units
08/08		50 units

Instructions

Compute the cost of goods sold and ending inventory that Trejo would report on its financial statements under each of the following cost flow assumptions:

(a) FIFO.
(b) LIFO (periodic system).
(c) Weighted-average cost (periodic system).
(d) LIFO (perpetual system).
(e) Moving-average (perpetual system).

(LO 8) **E8-17B** **(Dollar-Value LIFO)** Presented below is information related to Nguyen Company's inventory.

Year	Inventory at End-of-Year Prices	Price Index
2005	$100,000	100
2006	132,000	110
2007	137,500	125
2008	166,400	128
2009	117,000	130
2010	145,200	132

Instructions

Use the dollar-value LIFO method to compute the ending inventory for Nguyen Company for each of the years 2005 through 2010.

(LO 3) **E8-18B** **(Inventory Errors)** At December 31, 2006, Hernandez Company has the following items that may be misstated. Hernandez uses the periodic inventory system.

1. Goods costing $10,000 were purchased from a supplier f.o.b. shipping point on December 29, 2006, and were received January 6, 2007. These goods were recorded as a purchase in 2006, but were not included in the 2006 physical count.
2. Goods costing $2,000 were purchased from a supplier f.o.b. destination on December 28, 2006, and were received January 4, 2007. These goods were recorded as a purchase in 2006, but were not included in the 2006 physical count.
3. A sale on account of $3,000 was made to a customer on December 30, 2006, with shipping terms f.o.b. shipping point. These goods were not included in the 2006 physical count, but the sale was not recorded until the goods were delivered on January 3, 2007.
4. Hernandez included goods it was holding on consignment in its physical count in 2006 and 2007. The goods included amounted to $4,000 in 2006 and $6,000 in 2007.

Instructions

For each of the errors, indicate which accounts are over- or understated in 2006 and 2007. Also determine the impact of each error on total assets, liabilities, and equity for 2006 and 2007.

(LO 8) **E8-19B (Dollar-Value LIFO with Index Calculation)** Sharma Company adopted the dollar-value LIFO method on January 1, 2006. Presented below is 2006 and 2007 inventory information for Sharma.

Date	Item	Quantity	Cost per unit
1/1/06	A	10,000	$7
	B	3,000	$15

Date	Item	Quantity	Cost per unit
12/31/06	A	6,000	$8
Ending inventory	B	6,000	$16

Date	Item	Quantity	Cost per unit
12/31/07	A	7,000	$9
Ending inventory	B	6,000	$18
Ending inventory	B	1,000	$17

Instructions

Compute the ending inventory values for 2006 and 2007 under the dollar-value LIFO method. Compute indices to two decimal places.

(LO 2) **E8-20B (Periodic versus Perpetual Inventory Systems)** Farrell Company purchased $4,000 worth of goods on account on July 1, 2006, terms 2/10, n/30. It incurred an additional $300 of shipping charges. On July 5, it returned $400 worth of these goods. It paid for $3,000 worth of these goods on July 8 and the remaining $600 worth of these goods on July 15.

Instructions

Record the journal entries associated with these events assuming that Farrell uses the following:

(a) The perpetual inventory system and the gross method for purchase discounts.
(b) The periodic inventory system and the gross method for purchase discounts.
(c) The perpetual inventory system and the net method for purchase discounts.
(d) The periodic inventory system and the net method for purchase discounts.